

**The Millennium Challenge Corporation
Remarks by David Nummy**

**International Consortium on Government Financial
Management
20 April 2004**

Lessons in Development

For the last ten years, I have worked in the US Treasury Department's technical assistance program responsible for managing all projects related to public expenditure management. Our counterparts are typically Ministries of Finance in transitioning countries.

I want to relate a story that all of you at this conference will uniquely understand which I think helps to explain why the MCC is positioned to be very successful.

The very first country I engaged with ten years ago was a relatively new country coming out of difficult times. One of my first meetings was with the Minister of Finance and I asked him to explain briefly how government revenues were managed. He explained that each morning at 9am, he called the Governor of the Central Bank to learn how much revenue had been deposited the day before, he conferred with his cabinet colleagues and made a decision on how to spend yesterday's receipts. The process started anew the next morning. That was the sum of both budget formulation and budget execution.

Needless to say, I concluded that the government could benefit from assistance and the Treasury Department began an engagement to help them improve government finances. Over time, I learned some very valuable lessons observing this particular country.

Our program, along with other donors, explained the need to have an open, transparent, accountable and comprehensive budget process that provided meaningful information to its citizens. Being overburdened by the

problems of the day, little commitment to change was made, not out of resistance but because it wasn't a priority.

This particular country has a very large and successful Diaspora, including one individual with one of the world's larger fortunes. This individual was particularly generous toward his homeland and offered to provide a substantial amount of money to address some of the most urgent needs of its people. He informed the government that he would consider providing funding directly through government mechanisms but did not have faith that the existing financial management process could appropriately track his funds and provide information about impact and results. He chose to establish a foundation but left out the possibility of directly supporting government programs.

Almost immediately, Ministry of Finance officials laid out a program to modernize and reform their budget and financial management processes. My first lesson.....***incentives are powerful.***

In deciding what course they wanted to take in financial management reform, they began to look at the experience of their peer countries, they thought a great deal about their own needs, the experience and strengths of their employees, and the pace at which it made sense for them to proceed. Their program was far more effective than any which had previously been suggested. My next lesson.....***when governments have developed their own reform course, it is frequently more successful than when imposed from outside.***

Being a poor and inexperienced country, they needed technical expertise and financial resources. They turned to our program and to other donors and, working all together, the collective assets of determination, experience, and finance resulted in rapid and meaningful change.

Today, that country has one of the best financial management information systems among its peers and it has made the transition in budgeting from what I call, "what we spend money on" to "why we spend money", instituting a program-based budget process that is carefully establishing performance indicators. Another lesson.....***when donors are able to work as partners with their counterpart countries, their contributions are symbiotic.***

This reform has impacted every aspect of resource allocation and the overall efficiency and effectiveness of all public monies has dramatically changed, not least of which is due to the attention being paid to results. Economic growth has taken off and people's lives are demonstrably better. Yet another lesson is one that you have discussed at this conference.....*policy driven by the effective measurement of results has real impact on people.*

Since my first encounter with this particular country, I have been involved with over thirty countries either in transition from one economic system to another, various stages of development or in a post-conflict situation. The lessons I've referenced have been reinforced time and again. But perhaps the most important lesson of all that I've gained from my experience is that *policies matter*. No amount of technical expertise, financial resources, or good intentions will impact the lives of people suffering from poverty if they are not accompanied by the kind of public policies that promote growth and provide opportunity to every citizen.

The Millennium Challenge Corporation

When I had the opportunity to become a part of the Millennium Challenge Corporation, I knew immediately that it was an organization I wanted to be part of because the MCC is built around some fundamental principles including incentives, country driven development programs, working as a partner, being accountable for results, and, most importantly, the idea that policies matter.

The MCC was proposed by the President two years ago coincident with the Summit on Financing for Development held in Monterrey, Mexico, and enacted into law in January of this year.

I would like to briefly explain how these core principles permeate all aspects of the MCC's design and operations.

Incentives

One of the brilliant aspects of the law creating the MCC is that it mandates that a country's eligibility to benefit from the MCC is determined by their actions and the impact of their policies. The President and Congress have insulated the MCC from being impacted by the political imperatives of the day.

In our first year, only countries that can borrow from the International Development Association (IDA) with per capita incomes of \$1415 are candidates to participate. That results in a list of 75 countries. Twelve of those are prohibited by other provisions of law from receiving US assistance, leaving 63 “candidate countries”.

These 63 countries will be measured against their peers using sixteen indicators taken from independent sources. These indicators have been chosen to measure a country’s performance in three important areas: ***Governing Justly, Investing in People, and Encouraging Economic Freedom***. The details of these indicators and more detail about everything I mention today can be found at our web site, **MCC.GOV**.

Governing Justly

1. Civil Liberties (Freedom House)
2. Political Rights (Freedom House)
3. Voice and Accountability (World Bank Institute)
4. Government Effectiveness (World Bank Institute)
5. Rule of Law (World Bank Institute)
6. Control of Corruption (World Bank Institute)

Investing in People

7. Public Expenditure on Health (National Governments)
8. Immunization (World Health Organization WHO)
9. Total Public Expenditure on Primary Education (National Governments)
10. Primary Completion Rate (World Bank and UNESCO)

Encouraging Economic Freedom

11. Country Credit Rating (Institutional Investor Magazine)
12. Inflation (Multiple)
13. Fiscal Policy (National Governments)
14. Days to Start a Business (World Bank)
15. Trade Policy (Heritage Foundation)
16. Regulatory Quality Rating (World Bank Institute)

Our Board of Directors will then make a final selection of those countries that are eligible to request MCC assistance. The primary factors in their consideration will be whether countries:

- Rank above the median on half of the indicators in each three categories;
- Rank above the median on the corruption index, one of the indicators in the category of ruling justly; and,
- Whether a country has an inflation rate of less than 20%.

These considerations will be the predominant factor but the Board may consider data gaps, lags, trends, or other weaknesses in the indicators. Additionally, the Board may deem ineligible a country that performs substantially below its peers on any indicator and has not taken appropriate steps to address the shortcoming.

Key aspects of this selection process are that it rewards countries who have been following sound policies and that it provides a powerful incentive to candidate countries to enact policies that will change their ranking. The first group of eligible countries will be selected at a Board meeting taking place next week. We have already gotten indications that candidate countries are examining how they rank among their peers and discussing what policy changes they can make to improve them.

To further increase the incentive provided by MCC assistance, we expect that the MCC will be one of the most substantial donors in those countries with whom we eventually conclude an agreement. In addition, our assistance commitments will be multi-year in nature. We expect them to cover a period of three to five years in duration.

Our appropriated funding for this fiscal year is \$1 billion. The request in the FY2005 budget is \$2.5 billion and is projected to be \$5 billion in FY2006. This will represent an increase of 50% in US development assistance.

In short, an MCC partnership will be substantial, real, and will have a significant impact in the recipient country.

Country Driven Programs

Once countries are selected by the Board, it does not mean that they will automatically receive MCC assistance. These countries will be invited to make a comprehensive proposal outlining a program to be funded or partially funded by the MCC.

The MCC will expect the country itself to have developed the key elements of its proposal, the core element being their determination of the primary obstacles blocking economic growth and poverty reduction.

The MCC will expect a compact proposal to have been developed using a consultative process, which includes citizens and civil society, to develop its Compact program and will expect it to include measurement benchmarks that can be used to evaluate progress.

A Philosophy of Partnership

If negotiated to a successful conclusion, the MCC will sign an agreement with an eligible country called a Compact, much like a partnership agreement. One of the primary principles of our organizational culture will be to refrain from identifying problems or imposing solutions but, rather, to work together with countries in making our relationships successful.

It is our mandate and our intent to work in partnership with other US, multilateral, and bilateral donors. While an independent Federal corporation, our Board of Directors is chaired by the Secretary of State and includes the Secretary of the Treasury, the US Trade Representative, and the Administrator of USAID. Their presence will assure that we are reflecting the most important policy priorities of partner agencies in the US Government within the MCC context.

Measurable Results

In the next few days, we will post on our web site a set of Compact Proposal Guidelines to inform eligible countries on the elements that we will look for in their proposals. As mentioned above, the most important elements will be an identification of the obstacles to economic growth and poverty reduction, goals and outcomes they believe will overcome those obstacles,

and indicators that will serve as a benchmark and a measure of progress in achieving Compact goals.

I believe one of the unique aspects of MCC is that assistance discussions will initially be centered on measurable outcomes, a strategy to change economic growth and poverty reduction, and, only later on specific projects and implementation.

If you have a chance to read the guidelines, when posted, I think you'll find a business-like approach to a partnership agreement that reflects all the principles that I've outlined.

One key element of interest to you, will be a fiscal accountability plan for the Compact program which we will evaluate using all the MCC principles I touch on today including accountability, results, and transparency. We will also look at factors such as whether vendors can be paid in a timely fashion. As we've learned in our own government, when we can't pay our bills on time, we hurt the private sector. In many of these countries, the government is one of the largest customers in the economy and they set a standard for good business practices.

Policies Matter

As I've already mentioned, the MCC is founded on the belief that policy change is the most important ingredient of development. Our mandate and our actions will be guided by that belief. We will and should be measured on our own success by our ability to motivate governments to adopt the kind of policies that we know result in positive change in people's lives. While those policies are many and diverse, we characterize them in three broad categories: governing justly, investing in people, and encouraging economic freedom.

Summary

I find it a great privilege to be able to be part of this new approach to assistance. When I was asked why I was interested in working for the MCC, I responded that, first, it had a mission that I could believe in and that it embodied all the lessons I had learned working for ten years with governments wanting to improve their countries and the lives of their citizens.

Paul Applegarth, the nominee to be our CEO, has put it quite succinctly and to the point, “the MCC is an effort to be something new and different and good.”

I want to thank the ICGFM for giving me the opportunity to be here today and introduce you to the MCC.